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all these cases does not competition stand, not indeed as the absolute, but as the central, almost the all-embracing fact in economic life? This conception may or may not be correct but Professor Hicks is perfectly just in assuming that it represents the school against which he protests. It is by what we assert, not by what we concede that posterity will judge us. Our qualifications will but furnish arguments to our apologists.

THE THEORY OF PUBLIC EXPENDITURES.

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The aim of a discussion of public expenditures is to discover the meaning of expenditures for the life of a people and in this manner to arrive at the principles which control appropriations. The considerations which here present themselves are commonly discussed by English writers upon finance in connection with the limit of the right of taxation, but there are certain advantages in approaching the subject from the point of view of expenditure.

The first question which presents itself pertains to the extent to which the experience of the individual in the expenditure of his private income may be relied upon to determine matters of public expenditures. It is asserted by some that the principles controlling private expenditures do not apply in the case of expenditures by the state. This, however, is pressing the matter too far. The starting point of the discussion of public expenditures is the social income of which public income is a part, and as the individual is limited in his expenditures by the income which he enjoys, so the state is limited by the proportion of the social income which, under the

existing political, social and industrial conditions, may be rightly placed at its disposal. A distribution of public funds between the various lines of service undertaken by the state also is, in a general manner, determined by the same considerations as influence individual expenditures. As a larger percentage of the poor man's income is expended on the necessities rather than the comforts and luxuries of life, so the poor state would be called upon to make larger relative expenditures for the primary governmental functions than for those which come later in its national development. It is not strange that the underlying principles of public expenditures should prove to be the same as those followed by the individual, since on final analysis the state represents the collective interests of the people and may be regarded as one of the many means by which individual wants secure for themselves satisfaction.

When, however, the character of public service is considered, certain differences between public and private expenditures make their appearance. Thus the state, unlike the individual, enjoys the expectation of a perpetual existence, and on this account is justified in making investments which the individual would not care to make. The state may, for example, properly appropriate money for the development of a system of forestry. In the matter of education also, the state is justified in making an expenditure which may not be advantageous to the nation until after a considerable time.

Another contrast between public and private expenditure suggests itself when we consider that the phrase *profitable investment* has a different meaning for the state than for the individual. Thus an individual refrains from an investment which does not give rise to dividends or profits; while the state, on account of the

nature of its social and industrial functions, must consider that as a profitable investment which results in the creation of those social, political or industrial conditions essential to the efficiency of a private enterprise. In this respect public and private expenditures must be judged from different points of view.

The theory of public expenditures appears to be a theory of adjustments and apportionments; an adjustment in the first instance of the ratio of public to private expenditure, and in the second place an apportionment of the amounts properly assigned to the state between the various lines of public service. It is of course impossible to determine the aggregate of the funds which should be placed at the disposal of government in any given case without an analysis of all the items in all the chapters which go to make up the public budget, so that, in a sense, the two questions here separated for the purpose of study present but different parts of the same problem. There are, however, a few observations which may be made respecting the ratio of public to private expenditure (that is to say, the aggregate of public expenditures) quite independently of the consideration of specific appropriations.

First. The gross amount placed at the disposal of government depends, in large measure, upon the stage of industrial development at which the state has arrived. The significant figure is what may be termed the coefficient of public expenditures, that is to say the percentage of expenditures through the medium of the state to the gross income of the nation. From this it naturally follows that the larger the income and the more prosperous the industries, the more may the state take from the proceeds of private enterprise without any injurious results. This observation may be carried out in a great

many different lines of consideration. Perhaps the most important service which it renders in the unfolding of a theory of public expenditure is that it furnishes a basis for the classification of states in a comparative study of the expenditures of various nations.

Second. It must be observed, in the second place, that public expenditures hold a very intimate relation to the political life of the people. The most obvious illustration of this is found in the marked increase in military expenditures incurred by most of the nations of Europe. A comparison of the budgets of the various states measures in a very graphic manner the aspirations of nations for political importance.

Public expenditures are open to another influence, incident to the political conditions of nations, besides the one bound up in the spirit of nationality. Their organization, so far as the relative importance of local and central administration is concerned, affects both the distribution of expenditures between the two agencies of the state and the aggregate of expenditures undertaken by each.

Third. The aggregate of public expenditures depends, in the third place, upon the theory of social relations which the people have adopted and the degree of strictness with which it is followed in practice. These theories may be summed up in the two phrases, *expansive government* and *restrictive government*. The social theory may be looked for either in the philosophy of respective rights and duties of government and individuals, or (what amounts to the same thing) in the attitude of mind which the public instinctively assumes with regard to social or industrial problems. Most problems of this sort, at least under the conditions of the present century, rely for their solution upon an expansion in

some of its various forms of the principle of coöperation ; but a great deal depends, so far as public expenditures are concerned, upon the character of that coöperation. Is the collective activity demanded governmental or private ? Is coöperation to be secured by coercion or through voluntary association ? One cannot emphasize too strongly the contrast between these two views of social activity and their consequent influence upon the ratio of public to private expenditures or, as we are now discussing the subject, upon the aggregate of public expenditures. The rule commonly regarded as adequate by those who hold the restrictive theory of government is simple, at least so far as its statement is concerned. It was clearly stated by Sir Henry Parnell, who in 1830 wrote his remarkable tract on Financial Reform. Without following his language, the rule regarded by him as adequate to direct public retrenchment was that the state had no right to demand money from its citizens which could be a source of greater enjoyment or profit if left to swell the amount of their private expenditures. The pertinency of this rule consists entirely in its interpretation, but in the hands of those who believe in the restrictive theory of government, it means that the smallest possible amount necessary to maintain security of life and property is the amount which should be placed at the disposal of the state. The view of public expenditures held by the advocates of the expansive theory of government is perhaps equally unsatisfactory, when interpreted in the light of the manner in which it is applied to specific questions. Many German writers force this rule so far as to urge that a presumption in favor of government arises whenever a new social function makes its appearance. This is believed to be as pernicious in its results as the rule just considered.

We may say with Stein that "Parsimony is not economy and that the saving proper for the statesman to consider is not that which always decides for the smallest amount, but that which knows how to measure the amount of expenditure to the worth of the object for which the expenditure is incurred." We may even go so far as to allow some truth in the simile of Geffcken. "The administration of finance," says he, "should be conducted according to the rule laid down by nature, which everywhere abstracts moisture from the earth and plans to give it back in nourishing dews and rains." We may, I say, depart so far as this from the old conception of the relation of government to industry and still deny that the state has the first and practically an unlimited claim on the products of growing industries. The situation seems to be that the older English writers did not feel the need of a theory of expenditures because the theory of government which they held implied a fixed limit to governmental functions; while German economists are unable to work out a satisfactory theory respecting the limit of the demand by government upon the social income, because the theory of government which they accept gives all prominent functions to the state without question. As is so frequently the case the truth lies between these extremes and can only be discovered by a concurrent study of public and private functions. This would lead, so far as public expenditures are concerned, to an analysis of governmental functions, not alone as they now are but as they have developed. In no other way can they be classified so as to arrive at any principle by which the proportion of the social income properly assignable at any time to government, or the apportionment of the amount so assigned to the various lines of service undertaken by the state, may be determined.

The paper closed with a statement of public functions so classified as to lead one to appreciate the relative importance of the various lines of public service, the stage at which a people has arrived in their social, political and industrial development being known.

Discussion.

Professor Lindley M. Keasbey : We hear a great deal about state socialism, nowadays, and, as was remarked the other day, we are apt to draw back at the bare mention of the word. But if we look at this matter from the point of view of profitable public expenditure, it seems to me we shall be in a much better position. At the start our country was developed magnificently by the individual action of our frontiersmen. Certainly no government interference at that time would have been in place. Nowadays, however, as Professor Turner has admirably said, there is no longer a frontier in our country. But if we go back from the West to the East we shall find a great many things left undone by the frontiersmen as it was not to their individual advantage to do them. There are lands in the South which when properly drained will be perhaps the most fertile in the country, our prairies are inadequately supplied with natural forage crops, while our forests should not only be preserved, but also advanced westward by proper nurture. None of these enterprises, however, appeal to the individual. We have also before us the immense undertaking of the Nicaragua Canal, which can not be completed by private undertaking and should not be built by any semi-public corporation. We applied that principle to the Union Pacific Railway, and have learned the result. We pay the bill and the returns go to the private persons in the end. If we can

look at all these matters as profitable public expenditures, we may then take hold of them as a community, and in the future be repaid by our increased social income.

Professor E. R. A. Seligman: There are one or two points upon which I should like a little more light. I should certainly be far from attempting to defend Mr. Parnell's point of view. At the same time is it true that the individual economy is so entirely different from the public economy as Professor Adams in some of his remarks has seemed to assume? We not only see in every individual his own personal wants, which touch him as an individual, but we also observe that in the course of time there grow up these social or collective wants, which are quite as much a part of the individual but which can be satisfied only by some manifestation of social activity. This seems to me really to be the basis of the whole theory of public finance. We must start out from the individual as such. While in actual practical life the economic state is something different from the economic individual, yet they are both referable to certain attributes of the individual himself.

In one point Professor Adams somewhat exaggerates the distinction between the individual and the state. It has been said that the individual seeks to secure the satisfaction of material wants and the state to secure that of immaterial wants. But this is rather an historical development, applicable to each. The man who has a low standard of life has only material wants; he is satisfied with food and clothing; only gradually does he devote attention to art and music and the higher stages in the satisfaction of wants. But with the state it is precisely the same. At the beginning it must give us

protection, the very basis of all material welfare ; but as it develops, it also pays more and more attention to these immaterial wants.

If, however, we distinguish between the present condition of the individual economy and of the public economy, there is one point which might be brought out a little more strongly. Professor Adams assumed that each attempted to attain profits. Now this may indeed be only a quibble about words. If you say that profits in the one case mean monetary profits, actual profits, and that in the other case they mean indirect profits, I should not object. But I should think it might rather be put in this way : that whereas the individual seeks to obtain profits, the state as a whole seeks to secure social utility. That is no doubt at the bottom of Professor Adams's idea.

One minor criticism. In his interesting classification of expenditures Professor Adams puts in the third class the attainment of ethical aims, which perhaps may be another way of putting what I should call social utility. But in the third and fourth divisions of the first class we have the "Infringement of Rights and Duties, social and other." Is there anything more ethical in its nature than justice? Is it not true that whereas in early times the forms of justice were exceedingly primitive, in modern times the realm of justice has been immensely extended so as to take in a great many of these ethical aims? So again, among the "Direct Services" is it not true that we attempt to do a great many of these things precisely for an ethical purpose? I query therefore whether the classification can not be improved in some points.